

Date: 11/22

City of San Diego
Department of Finance: Comptroller Division
Memorandum

Date: November 21, 2006
To: Councilmember Frye
From: Greg Levin, CPA, Financial Operations Manager
Subject: Response to your October 16, 2006 memorandum concerning the City's Draft Fiscal Year 2003 CAFR.

Thank you for providing us with your comments and questions regarding the draft unaudited fiscal year 2003 CAFR. We appreciate your thorough review and value your input into our City's financial statements. We have considered your proposed changes, additions and requests in your memo dated October 16, 2006 and have noted our response. Please see our responses following each to the first 25 of your comments and/or questions below. We will provide black-line copies of the CAFR to the council, which will show revisions per your comments and questions as well as other changes upon the release of the next draft. We anticipate the release of another draft of the CAFR shortly. Following the next draft of the CAFR, I plan to respond to the remainder of your questions.

1. **The CAFR should include a page identifying all the individuals who were responsible for its preparation.**

We agree, we will place the names of the principal authors and reviewers responsible for the production of the City's CAFR. This list will include the members of the disclosure working practice group who were present during the group's review of the CAFR document.

Principal Authors:

Gregory Levin, CPA Financial Operations Manager
Tracy McCraner Principal Accountant

Principal Reviewers:

Jay M. Goldstone, Chief Financial Officer
John J. Torell, CPA Esq., Auditor & Comptroller
Gail Granewich, City Treasurer
Lawrence Tomanek, CPA Esq., Assistant Auditor & Comptroller
John McNally, Esq. Outside Disclosure Council
Mark Blake, Esq., Deputy City Attorney for Finance and Disclosure
Brant Will, Esq., Assistant Deputy City Attorney for Finance and Disclosure
Lakshmi Kommi, Director of Debt Management

2. **Please provide to me any draft copies of the 2003 CAFR.**

We provided these documents to you and the other City Councilmembers on October 26, 2006.

3. Has the city complied with all federal, state and local legal requirements regarding grant funds and loans? Are there any facts that have not been disclosed that could change or affect the information provided in the CAFR?

We have disclosed any known non-compliance or regulatory violations that we are aware of. Additionally, we have disclosed all information that has come to our attention which we determined could affect a reasonable investor's opinion as to the City's Financial Statements.

4. How much is the debt owed to the city by CCDC and SEDC in 2003 and where is that shown?

The Redevelopment Agency, Centre City Development Corporation (CCDC) and Southeastern Economic Development Corporation (SEDC) are a part of the City's financial reporting entity. Specifically, they are blended component units of the City.

At the fund level and in accordance with the modified - accrual basis of accounting, long-term liabilities are not reported on the face of the financial statements (Draft CAFR pages 216, 217 & 243). Furthermore, since they are blended component units, the financial results of CCDC, SEDC and the Redevelopment Agency are consolidated with those of the primary government pursuant to Governmental Accounting Standards Board Statement 34. Part of this consolidation is to eliminate, from a "government-wide" financial reporting perspective, debt that is owed between the City and the Redevelopment Agency.

The presentation of CCDC, SEDC and the Redevelopment Agency as blended component units in the City's CAFR is driven by the City's financial accountability and the governance structure for the operations of each entity. As such, the question of presentation falls to analyzing the governing structure of each organization. The analysis of the governance structure is based on two principles: if 1) the component unit has substantively the same governing body as the primary government or, 2) the component unit provides service entirely or almost entirely to the primary government or otherwise exclusively or almost exclusively benefits the primary government, then the component unit is blended.

The Redevelopment Agency was formed pursuant to California State Health and Safety Code §33000 et al. The City Council is the legislative body of the Redevelopment Agency and thus directs its operations through setting its budget and implementing various policy decisions. Both CCDC and SEDC are non-profit public benefit corporations that act as the City's agent in carrying out redevelopment activities for the respective project areas that they have been created to administer. The City (through the City Council) is the sole member of both corporations and as such has the right to amend and restate the bylaws (attached) of each corporation. We note that the Council currently delegates a significant amount of authority to SEDC and CCDC for the redevelopment of the various project areas.

Currently, both SEDC and CCDC receive annual operating subsidies from the Redevelopment Agency to fund their operations. These subsidies are used to support the ongoing administrative costs associated with the operations of each non-profit corporation. The amount of these subsidies is listed below.

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CCDC & SEDC Operating Subsidies			
Fiscal Year	CCDC	SEDC	Total
2002	\$ 4,403,306	\$ 1,165,276	\$ 5,568,582
2003	4,995,376	1,438,195	6,433,571
2004	5,285,689	1,722,549	7,008,238
2005	5,980,537	1,632,527	7,613,064
2006	6,588,326	1,817,853	8,406,179
5 - Year Total	<u>\$ 27,253,234</u>	<u>\$ 7,776,400</u>	<u>\$ 35,029,634</u>

In acting as the City's agents both CCDC and SEDC routinely engage in the purchase and sale of various land parcels. However, the land purchased and sold is recorded as the assets of the City's Redevelopment Agency. Similarly, any bonded indebtedness and any loans from the City pursuant to these purchases are recorded as the debt of the Redevelopment Agency, not CCDC and SEDC. To reiterate, the debt owed to the City as a result of redevelopment activities, are owed by the City's Redevelopment Agency not as that of CCDC and SEDC.

The total debt owed to the City by the Redevelopment Agency at June 30, 2003 was \$221 million. We have included for your information the amount of this debt as it relates to various project areas governed by CCDC and SEDC in the schedules on the following page.

CCDC Administered Project Areas

Centre City (with all sub-areas):	\$ 107,149,074
Horton Plaza:	5,054,712
Total:	<u>\$ 112,203,786</u>

SEDC Administered Project Areas

Central Imperial:	\$ 23,205,946
Gateway Center West:	17,718,645
Mount Hope:	4,993,628
Southcrest:	17,399,145
Total	<u>\$ 63,317,364</u>

These loans have been funded by various sources. When City loans are defeased by the Redevelopment Agency, loan repayments are recorded in the fund that originally issued the loan. This revenue is subject to any restriction the fund may have.

A detailed analysis of the composition of and restrictions related to Redevelopment Agency Debt follows:

**CCDC Administered Project Areas
June 30, 2003**

	Centre City	Horton Plaza	Totals
Restricted for Use:			
CDBG	\$ 97,839,430	\$ -	\$ 97,839,430
Capital Outlay	23,682	403,151	426,833
Gas Tax	175,746	-	175,746
Sewer	819,465	-	819,465
Water	476,103	-	476,103
Subtotal:	99,334,426	403,151	99,737,577
Unrestricted:			
Sales Tax	7,814,648	-	7,814,648
TOT	-	4,651,561	4,651,561
Subtotal:	7,814,648	4,651,561	12,466,209
Total	\$ 107,149,074	\$ 5,054,712	\$ 112,203,786

**SEDC Administered Project Areas
June 30, 2003**

	Central Imperial	Gateway	Mount Hope	Southcrest	Total
Restricted for Use:					
CDBG	\$ 19,469,707	\$ 16,062,491	\$ 1,076,555	\$ 8,093,267	\$ 44,702,020
Capital Outlay	84,064	1,656,154	3,546,048	1,992,783	7,279,049
TransNet	1,555,115	-	359,609	33,196	1,947,920
Subtotal:	21,108,886	17,718,645	4,982,212	10,119,246	53,928,989
Unrestricted:					
Sales Tax	2,097,060	-	11,416	904,689	3,013,165
General Fund	-	-	-	6,375,210	6,375,210
Subtotal:	2,097,060	-	11,416	7,279,899	9,388,375
Total	\$ 23,205,946	\$ 17,718,645	\$ 4,993,628	\$ 17,399,145	\$ 63,317,364

Of the \$175,521,150 owed to the City by the SEDC-administered and CCDC-administered Redevelopment Agency project areas at June 30, 2003, only \$21,854,584, which is made up of General Fund, Sales Tax revenue, and TOT, may be expended without restrictions. Restrictions on other revenue are as follows:

CDBG: All loans repaid to the CDBG Program Income Fund are held to the same restrictions as the annual CDBG Entitlement. These restrictions include:

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maximum of 20% of each year's grant plus program income being spent toward planning/administration;
public service expenditures may not exceed 15% of the program year's entitlement plus 15% of the preceding year's program income, and;
no less than 70% of CDBG funds are required to be spent on activities which benefit Low and Moderate Income persons.

Capital Outlay: According to City Charter, Article VII, Section 77, Capital Outlay funds are to be used exclusively for the acquisition, construction and completion of permanent public improvements, including public buildings and such initial furnishings, equipment, supplies, inventory and stock as will establish the public improvement as a going concern.

Gas Tax: Per Article XIX of the California Constitution, Gas Tax funds are to be used for the research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for non-motorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

Sewer: All funds returned to the Sewer Fund are to be used for Sewer projects.

TOT: Transient Occupancy Tax revenues are governed by Chapter 3, Article 5, Division 1 of the San Diego Municipal Code. Approximately 40% of these revenues are restricted for promoting the City of San Diego. 50% of the revenues are to be used for general governmental purposes, and the remaining 10% is completely unrestricted and may be allocated for any purpose as directed by the City Council.

Although TOT is partially restricted for specific use, this may be changed to unrestricted at the Council's discretion should the Municipal Code be modified. For this analysis, TOT has been classified as unrestricted.

TransNet: Voter-approved Proposition A, 1987, restricts the use of TransNet funds for specific transportation projects as implemented in the San Diego Transportation Improvement Program.

Water: All funds returned to the Water Fund are to be used for Water projects.

Please note that all Capital Outlay, Gas Tax, Sales Tax, TOT, and TransNet debt within the Centre City and Horton Plaza project areas were repaid prior to June 30, 2006. The following is a breakdown of outstanding revenues owed the City at June 30, 2006 by the CCDC-administered and SEDC-administered project areas.

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